

## Message Text

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ORIGIN SS-25

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OSD:COL CHING

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FM SECSTATE WASHDC

TO AMEMBASSY PHNOM PENH

S E C R E T STATE 006995

EXDIS

E.O. 11652: GDS

TAGS: EAID, EFIN, CB

SUBJECT: KHMER BUDGET

REF: A. PHNOM PENH 15335

-- B. STATE 255895

-- C. PHNOM PENH 15635

-- D. PHNOM PENH 15740

-- E. STATE 263853

-- F. PHNOM PENH 15963

1. DETERIORATING KHMER BUDGETARY SITUATION REPORTED  
REFTELS HAS BEEN REVIEWED AT HIGH LEVELS OF DEPARTMENT.

2. EMBASSY WILL RECALL THAT ORIGINAL NATIONAL SECURITY  
DECISION MEMORANDUM FOR CAMBODIA PREDICATED THAT ECONOMIC  
ASSISTANCE TO THE GKR WOULD BE PROVIDED CONTINGENT UPON  
APPROPRIATE GKR BUDGET, WAGE, EXCHANGE RATE AND RICE  
POLICIES. ECONOMIC REFORMS NEGOTIATED IN SEPTEMBER  
WERE NECESSARY AND APPROPRIATE CORRECTIONS OF EXCHANGE  
RATE AND RICE PRICE POLICIES TO INSURE OPTIMAL GKR BUDGE-

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TARY REVENUES FROM OUR ASSISTANCE. HOWEVER, AS REFTELS

BEAR OUT, REVENUE-RAISING MEASURES ARE NOT PROVING SUFFICIENT TO KEEP UP WITH BUDGET INCREASES AND EVENTUALLY BRING GKR BUDGET NEAR BALANCE. IT APPEARS THAT PRESENT HYPERINFLATION AND LACK OF CONTROLS AND ADEQUATE PROCEDURES ON EXPENDITURE SIDE OF BUDGET MAY BE JEOPARDIZING BOTH POLITICAL AND ECONOMIC STABILITY.

3. RECOGNIZE THAT SOME GKR ELEMENTS SURE TO RESIST REDUCTIONS IN PAYROLLS WHICH MUST BE PART OF INCREASED BUDGETARY DISCIPLINE. HOWEVER, BELIEVE CONTROLS ON BUDGET WILL WORK IF GKR CIVIL AND MILITARY LEADERSHIP GENUINELY CONVINCED THAT USG INSISTS FIRMLY ON SUCH LIMITS. BELIEVE NOW THAT UN VOTE BEHIND US AND CY 1975 COMMENCING, THIS EXCELLENT TIME EMBARK ON PROGRAM OF IMPROVED BUDGET SYSTEM AND CONTROLS. CURRENT FAA CEILING ON ECONOMIC AND PL 480 ASSISTANCE MAKES BUDGET REFORM EVEN MORE URGENT AND IMPERATIVE.

4. AS WE SEE IT, THE FIRST ORDER OF BUSINESS IS TO AGREE WITH THE GKR ON A FIGURE REPRESENTING A PRELIMINARY BUDGET CEILING FOR CALENDAR YEAR 1975 AND A FIRM BUDGET CEILING FOR THE FIRST SIX MONTHS. THERE SHOULD BE FIRM UNDERSTANDING THAT ANY ADD-ONS TO THIS FIGURE MUST BE JOINTLY AGREED UPON AND WOULD ONLY BE ACCEPTABLE UNDER EXTREME CONDITIONS. MILITARY COMMANDERS OR CABINET MINISTERS COMING IN FOR SUPPLEMENTAL RESOURCES DURING CY 1975 SHOULD OBTAIN THESE SUPPLEMENTAL RESOURCES BY REALLOCATING FUNDS WITHIN THEIR BUDGET CEILING.

5. IN ORDER TO ARRIVE AT TOTAL BUDGET CEILING FIGURE, IT WILL BE NECESSARY TO FORMULATE WITH THE GKR A FOREIGN EXCHANGE BUDGET FOR CY 1975 FROM ALL SOURCES INDICATING SOURCES AND USES (INCLUDING DIPLOMATIC AND MILITARY MISSIONS AND DEBT SERVICE) AND IDENTIFYING THE COUNTERPART-GENERATING PORTIONS OF THE SOURCES. AFTER INSERTING ASSUMPTIONS ABOUT EXCHANGE RATE, RICE PRICES, AND SUBSIDIES DURING CY 1975, U.S. AND GKR WILL THEN BE IN POSITION ESTIMATE AMOUNT OF RIELS EXPECTED FROM COUNTERPART AND TAXES. AS YOUR PROJECTIONS OF LOCAL CURRENCY GENERATIONS FOR CY 1975 INVOLVE FY 1976 AS WELL AS FY 1975 FUNDS,

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LOCAL CURRENCY GENERATION ESTIMATES FOR CY 1975 INDICATED TO GKR WILL REQUIRE WASHINGTON APPROVAL. WE WILL BE PARTICULARLY INTERESTED IN YOUR ANALYSIS OF PRICE ADJUSTMENTS, ESPECIALLY RICE PRICE, NEEDED TO RAISE REVENUES TO BALANCE BUDGET AS WELL AS INCREASE PRODUCTION.

6. WHILE DETERMINATION OF CY 1975 BUDGET CEILING MUST AWAIT YOUR ANALYSIS ABOVE POINTS, OUR PRELIMINARY VIEW, AT

LEAST UNTIL PL 480 LEVELS ARE RAISED, IS THAT GKR PROBABLY NOT ABLE AFFORD TOTAL BUDGET FOR CY 1975 IN EXCESS OF 145 BILLION RIELS INCLUDING UP TO 45 BILLION RIELS OF EXTRA-BUDGETARY EXPENDITURES FOR HUMANITARIAN REQUIREMENTS. IN OTHER WORDS, SOMETHING ON ORDER OF 100 BILLION RIELS WOULD APPEAR PROVISIONAL LIMIT FOR REGULAR BUDGET IN CY 1975 UNLESS YOUR ANALYSIS SHOWS WHERE ADDITIONAL REVENUES WOULD COME FROM. AT 100 BILLION RIELS LEVEL FOR

REGULAR BUDGET, BASED ON OUR UNDERSTANDING OF WHERE BUDGETARY "LEAKAGES" OCCURING, BELIEVE THAT CEILING OF APPROXIMATELY 60 BILLION RIELS SHOULD BE PLACED ON MILITARY BUDGET (SALARIES AND MATERIAL) AND 40 BILLION RIELS ON CIVIL BUDGET (SALARIES AND MATERIAL). THESE ARE ROUGH GUIDELINES. IN ANY EVENT, BUDGET CEILING YOU PROPOSE SHOULD INDICATE CIVIL AND MILITARY SUB-CEILINGS WHICH MUST PROVIDE FOR 1974 PAY INCREASES AS WELL AS FOR ANY PAY INCREASES PROJECTED FOR CY 1975. UPWARD OR DOWNWARD REVISION OF EXPENDITURE CEILING SHOULD BE POSSIBLE ONLY IN EVENT CHANGED FORECASTS ON REVENUES SIDE.

7. ACTION REQUESTED; REQUEST YOUR INITIAL ESTIMATE OF:

A. PROPOSED GKR FOREIGN EXCHANGE BUDGET FOR CY 1975, PER PARA 5, SHOWING CARRY IN, SOURCES, AND USES. YOUR PROJECTIONS SHOULD TAKE INTO ACCOUNT CURRENT FAA CEILING, STRATEGY FOR LIFTING CEILING AND REDUCED TITLE I PROGRAM, I.E., ELIMINATION OF COTTON AND TOBACCO, EVEN UNDER INCREASED CEILING.

B. PROPOSED GKR LOCAL CURRENCY REVENUE PROJECTION FOR CY 1975 FROM COUNTERPART, TAXES, AND OTHER SOURCES.

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C. YOUR PROPOSAL FOR GKR RIEL EXPENDITURE BUDGET FOR CY 1975, INCLUDING CEILING FOR FIRST SIX MONTHS CY 1975, BASED ON REVENUES PROJECTION, WITH CIVIL AND MILITARY SUB-CEILINGS. INCLUDE ALL EXPENDITURES WHETHER OR NOT CURRENTLY IN GKR BUDGET DOCUMENTS.

D. PROPOSED FANK AND CIVILIAN PAYROLL CEILINGS FOR CY 1975 DERIVED FROM OVERALL BUDGET CEILING AND SUB-CEILINGS.  
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